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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Federal-State Joint Board on Universal Service	)))	CC Docket No. 96-45
Public Notice DA 96 1891	))	

Reply Comments of the Competition Policy Institute

January 10, 1996

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Public Notice DA 96 1891

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The Competition Policy Institute (CPI) is a non-profit organization that advocates state and federal regulatory policies to bring competition to telecommunications and energy markets in ways that benefit consumers. CPI appreciates the opportunity to reply to comments filed by other parties on the Recommended Decision of the Joint Board and in response to the questions posed by the Common Carrier Bureau in this Public Notice.

The Recommended Decision of the Joint Board is a fundamentally sound approach to preserving and enhancing universal service. The Recommended Decision strikes the appropriate balance required by Congress to support universal service while promoting a competitive marketplace for all telecommunications services. CPI supports nearly all aspects of the Recommended Decision and recommends that the Commission adopt the recommendation with only a few modifications and extensions. The Joint Board did not reach a conclusion on one very significant issue: whether to use combined interstate and intrastate revenues as the basis for apportioning responsibility for universal service support.[1] CPI strongly supports the use of combined revenues. We commented extensively on the interstate/intrastate issue in our initial Comments

[1] We agree with the Comments of CompTel that this is the most important issue left open by the Joint Board. CompTel Comments at 6.

in response to the Public Notice[2] and will not repeat those arguments here. In these reply comments we respond to Comments of other parties on the balance of issues.

I. The Commission Should Adopt the Joint Board Recommendation to Use a Proxy Cost Model to Identify High Cost Areas and Distribute the Universal Service Fund.

The Joint Board correctly concluded that a proxy cost model should be employed to identify high cost areas and to compute and distribute the federal Universal Service Fund. As the Commission recognized in its Interconnection Order, forward-looking economic costs are the appropriate costs to consider in setting prices for transactions among competing telecommunications providers. Similarly, forward-looking economic costs are the appropriate costs to consider when creating a system of explicit subsidies of high cost telecommunications areas served by competing telecommunications providers, especially since support will flow from some providers to others. Basing prices (and support payments) on the costs of an efficient supplier is an indispensable element in moving from a regulated monopoly environment to a competitive one.

The record in this case is replete with support for this basic notion. In Comments, numerous parties supported the use of a proxy cost model as the best means to ensure that carriers were compensated for their economic decisions.[3] The parties opposed to the use of economic costs

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[2]Comments of the Competition Policy Institute filed December 16, 1996.

[3]See, for example, Comments of AdHoc, AirTouch, AT&T, MCI and MFS. Citizens for a Sound Economy supports competitive bidding but agrees that embedded costs should not be used to determine universal service support.

and proxy cost models focused their attention on whether or not the proxy cost models fully compensated the ILECs for their historic ("legacy") costs.[4]

There are two major reasons why the Commission should adopt the recommendation of the Joint Board and set these appeals aside. First, at a level of principle, incumbent LECs do not have a claim on embedded costs. These costs are legacies, to be sure--legacies of monopoly regulation which could not induce the full efficiencies that a competitive market will require. The same logic that led the FCC to adopt economic costs in the pricing of interconnection applies here.

Second, at a level of operation, the Commission should not consider it necessary to review the embedded costs of the LECs. The federal Universal Service Fund will not, and should not, provide all of the support required in high cost areas. Regardless of the cost basis, the federal USF will provide only a portion of the support required by LECs serving high cost areas. The balance of the support needed to yield affordable rates will be provided by State universal service funds. While embedded costs versus economic costs might otherwise be a worthy subject for debate, CPI suggests that the Commission is not required to deal with that issue in this case. If it properly arises anywhere, the question about "legacy costs" will arise at the state regulatory level where prices are set. The main job of the FCC is to discover a method to distribute the federal USF among providers in an equitable manner. The object of this docket is to accomplish the federal component of keeping rates affordable. Keeping ILECs whole (or not keeping them whole) is simply not a requirement in this case.

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[4]See Comments of USTA, USWest, PacTel and Ameritech, for example.

Another way to analyze this issue is to consider merits of embedded costs versus economic costs when the size of the USF is kept constant. To keep the argument focused on the essential debate in this analysis, we will keep the size of the federal fund the same in each case by varying the revenue benchmark. In other words, assuming embedded costs yield a higher aggregate revenue requirement than economic costs, we adjust the benchmark to yield the same size federal USF. This method isolates the comparison of the two cost methods for analysis.

If support payments under the USF are made on the basis of a carrier's reported historic costs, the fund would explicitly subsidize inefficient companies to a greater extent than efficient ones. Further, carriers have the perverse incentive to report the highest possible costs. Regulators are forced to respond by examining the legitimacy of these reported costs, LEC by LEC. While this prospect is daunting enough for the ILECs, it becomes an even larger task to extend that to new entrants in local telecommunications.

If instead the same size federal USF is distributed on the basis of economic costs, the more efficient carrier will receive a subsidy that is larger relative to the carrier's costs. Efficiency will be rewarded. Providers would not be able to affect their share of the fund by manipulating reported costs since the support payment would be independent of their individual costs. Finally, the same model would apply to all LECs, regardless of their regulatory history.

CPI acknowledges the difficulty in developing and selecting reliable proxy cost models. We understand the Joint Board's unwillingness to select a single model without further study and are confident that the Commission's workshops will produce progress toward an acceptable proxy cost model. But the discussion above points out an important fact. For purposes of distributing the federal USF, the most important quality of a proxy cost model is its "horizontal" fairness, i.e., its ability to produce consistent results across telecommunications providers. It is less important, for purposes of federal USF distribution, that the model be completely accurate "vertically," i.e., produce the exactly correct total revenues required. (At the same time, we caution that this does not mean that one model is as good as another, especially not for other purposes. For example, for determining the costs of unbundled network elements of an incumbent LEC within a service area in a state, "vertical" accuracy is essential. In that case, it is most important that a chosen proxy cost model correctly determine the cost of elements in a given state. It is less important that such a model produce consistent results across states.)

II. The Commission Should Use a National Revenue Benchmark for Computing the USF Distribution. However, Other Meritorious Proposals Exist.

CPI supports the Joint Board's recommendation to use a national "revenue per line" benchmark for determining the size of the Federal USF. This method has ample theoretic and practical support in the record in this docket. At the same time, CPI acknowledges that some parties have suggested other benchmarks which could also serve to distribute the federal USF in an equitable manner.

As with the cost model, it is useful to review the main reason any benchmark is employed: in combination with a cost methodology, a benchmark determines the total size and distribution of a finite federal universal service fund. The benchmark is not designed to determine rates or even to decide affordability. For these reasons, the essential criteria of correct benchmarks are that they: i) produce a fair result across providers; ii) are not subject to manipulation; and iii) produce an acceptable division of responsibility between the federal USF and state USFs.[5]

In its Comments, SNET suggests that the use of a benchmark could lead to a state having the ability to "game the process" by keeping rates in a state below the benchmark rate.[6] But SNET's criticism apparently arises out of a misunderstanding of how the benchmark would function. Under the Joint Board's Recommended Decision, the benchmark would be based on the national average revenue per line, a number that a single LEC could not influence in any substantial way. The federal USF support would be almost completely independent from the rate charged in a state. It would depend only on a proxy cost and a national benchmark. The danger cited by SNET is instead a criticism of any methodology that relies on the actual revenues of a specific provider, instead of a benchmark, to determine the size of the USF support payment to that provider.

[5]The Comments of BellSouth at 5-6 contain a useful discussion of the role of the revenue benchmark. BellSouth's analysis is very similar to that presented here by CPI. However, CPI does not agree with BellSouth that the combination of federal and state USFs must necessarily recover the total "actual" costs reported by a LEC. We also agree with the Comments of USTA at 11 that the benchmark will essentially determine the boundary between state and federal universal service efforts for high cost areas.

[6]SNET Comments at 5.

There are several other proposals concerning the benchmark that deserve consideration. USWest has recommended that, instead of a revenue-based benchmark, the Commission should use a fixed target of $30. To the extent that this approximates the total revenue per line, the USWest proposal is similar to the benchmark recommended by the Joint Board, only frozen at a point in time. The USWest proposal fixes the benchmark so that future increases or decreases in the revenue per line will not affect the size of the federal fund. Of course, the benchmark could be reviewed subsequently by the Joint Board or Commission so that there is no reason, in principle, that the Commission could not adopt a (temporarily) frozen benchmark.[7]

Other parties, including the Georgia Consumers Utility Counsel Division and BellSouth, suggest that the benchmark be de-averaged to reflect differences in affordability. The Georgia CUC recommends that regional revenue benchmarks would more appropriately target universal service support to areas with high costs (and low revenue per line).[8] BellSouth recommends using a benchmark that is related to household income in an area.[9] This would tend to target the USF to areas with lower average incomes, presumably tracking affordability more accurately than a national benchmark[10]. Each of these general concepts has evident advantages.

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[7]CPI does not necessarily support the specific level of $30 suggested by USWest.

[8]Comments of the Georgia Consumers' Utility Counsel Division at 2.

[9]Comments of BellSouth at page i.

[10]While CPI thinks the BellSouth recommendation to base the benchmark on a percentage of income may have merit, we do not necessarily support the specific level of 1% suggested by BellSouth.

III. The Geographic Areas Used to Compute USF Subsidies Should be based on Census Block Groups and Should be Coordinated with Geographic Zones for Deaveraged Unbundled Network Elements.

CPI previously suggested that the Joint Board and the Commission should determine the level of universal service support on the basis of census block groups.[11] The Joint Board did not appear to include any recommendation concerning the size of the geographic areas for determining the level of cost support, pending its determination of the best proxy model to use. The Joint Board did recommend that the Commission "establish the level of universal service support based on areas that may be smaller than the service area designated by the state."[12] CPI supports this recommendation and encourages the Commission to target the support to those high-cost areas that require it.[13]

Several commenters raise an additional issue concerning the relationship between the high-cost areas and the zones used to reflect geographic cost differences in rates for interconnection and unbundled elements.[14] These commenters note that the zones for deaveraged prices for

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[11]See CPI's *ex parte* comments to the Federal-State Joint Board, October 4, 1996, at 6.

[12]Recommended Decision, ¶178.

[13]Some have argued that breaking out service areas of large LECs into smaller pieces may allow some large LECs to receive universal service support for high-cost areas even though the LEC also provides service to low-cost areas of the state. Although this might increase the total amount of support in the federal fund, CPI believes that this result is consistent with the notion that universal service support should be targeted to high-cost areas. To the extent that large LECs who serve both high-cost and low-cost areas in a state begin to receive support for the high-cost areas, state commissions should take action to reduce rates in the low-cost regions to the extent those revenues were formerly used to subsidize rates in the high-cost areas.

[14]See, USTA Comments at 31; NYNEX Comments at 32-36.

unbundled elements must be synchronized with the high-cost support areas. CPI agrees with these commenters that competitors should not be given uneconomic incentives to enter or exit markets based upon distortions in the pricing of unbundled elements and universal service support.

Because of jurisdictional issues, however, it is difficult to know how to address this problem. The FCC's Order implementing Section 251 directs the States to create the cost-related zones to implement deaveraged rates for interconnection and unbundled elements, while the FCC, based upon advice from the Joint Board, will determine the geographic areas for high-cost support.[15] The determination of high-cost areas should not delegated to the states; FCC rules to determine the high-cost support are essential to ensure nationwide uniformity of administering the federal universal service fund.[16] CPI urges the Commission to consult with the Joint Board to resolve this issue.

IV. To Be Eligible for Support, Carriers Should not be Required to Serve Non-Contiguous Areas, Should Receive Universal Service Support to the Extent They Use Unbundled Elements, and Should Receive Lifeline Support Even to the Extent They Provide Local Service through Resale.

A. Size of Service Areas

To be eligible to receive universal service support, a carrier must meet the eligibility

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[15]Even if the FCC's 251 order is overturned on appeal, several state commissions have already begun implementing deaveraged prices of unbundled elements.

[16]See CPI's *ex parte* comments, October 4, 1996 at 6.

requirements throughout the service area.[17] The service area differs depending upon whether it is served by a rural or non-rural telephone company.

1. Service Areas for Rural Telephone Companies Should be Contiguous.

For areas served by rural telephone companies, the Joint Board recommended that the Commission should "retain the current study areas of rural telephone companies as the service areas for such companies."[18] CPI recognizes the practical difficulties of adopting service areas that are different from the companies' study areas at this time. Nevertheless, the Commission, in conjunction with the States, should strongly consider requiring service areas to be geographically contiguous.

CPI supports the comments of Cox Communications, Inc., which stated, "Many rural LEC study areas are non-contiguous. Consequently, using the entire study area as the service area for rural LECs could force competitors to serve widely disparate areas within a single state before becoming eligible for universal service subsidies".[19] Requiring competitive carriers to serve several geographic areas within a state as a pre-condition to receiving any universal service support could severely restrict the potential for competition in rural areas.

While the Act allows competitors to serve a service area through resale as well as by using its

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[17]See Section 214(e).

[18]Recommended Decision, ¶172.

[19]Comments of Cox Communications at 7.

own facilities, rural telephone companies are exempted from the resale obligations unless the state commission removes the exemption.[20] Furthermore, a potential competitor must advertise the offering of service throughout the service area in order to be classified as an eligible telecommunications carrier. If the service area includes non-contiguous areas, the costs of advertising over several geographic markets can increase the cost dramatically. CPI urges the Commission, after consultation with the States, to refine the definition of service areas served by rural telephone companies so that they are geographically contiguous.[21]

2. Service Areas for Non-Rural Telephone Companies Should be Small and Contiguous.

CPI supports those commenters who advocate small service areas for territories served by non-rural telephone companies.[22] The smaller the service area, the more likely that competition will develop for telephone services in that area. To the extent that the States adopt definitions of service areas that separate high-cost areas from the low-cost areas that traditionally subsidize the high-cost areas, the universal service funds at the state and federal levels can provide any required subsidies.

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[20]See Section 251(f). While Section 251(b)(1) requires all local exchange carriers, including rural telephone companies, not to prohibit resale, this provision does not require carriers to provide such resale at wholesale rates. Requiring potential competitors to pay the same retail rates as end users makes it impossible for the new entrant to compete with the incumbent local exchange carrier on price.

[21]While section 214(e)(5) gives authority to the Commission and the States, after taking into account recommendations of a Federal-State Joint Board, to establish a different definition of service area, CPI believes that the FCC should have the principal role in this decision given that the purpose of the service area definition is to determine eligibility for federal universal service support. See section 254(e).

[22]See Comments of Cox Communications at 5, Worldcom Comments at 13.

CPI agrees with the Joint Board's conclusion that sections 214(e)(2) and (e)(5) give state commissions the authority to determine the service areas for non-rural LECs. CPI also agrees with the Joint Board's suggestions that large service areas could potentially violate sections 253 and 254(f).[23] A less confrontational approach, however, would be for the Commission to adopt guidelines for the States to use in determining the size of each service area. These guidelines should encourage the States to adopt service areas for non-rural LECs that are as small as possible. Even if these guidelines were permissive and not mandatory, they would help to provide some degree of uniformity among the States and provide some additional certainty to potential competitors and the incumbent LECs. Furthermore, the existence of these guidelines would put the States on notice in advance of any possible preemption proceedings under Sections 253 or 254.

B. Eligibility Requirements for Eligible Telecommunications Carriers

CPI agrees with the recommendation of the Joint Board to adopt, without further elaboration, the statutory criteria contained in section 214(e)(1) as the rules for determining whether a telecommunications carrier is eligible to receive universal service support. The eligibility criteria were the subject of extensive negotiations and were resolved by Congress. Furthermore, there is no policy reason to add additional requirements, such as carrier of last resort designations or other regulations, upon carriers seeking to receive universal service support. Such additional burdens would discourage competition and would violate the goal of competitive neutrality.

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[23]Recommended Decision, ¶177.

As the Joint Board notes, state commissions designate eligible carriers, not the FCC. Nevertheless, the Commission should adopt guidelines concerning the meaning of the term "throughout" and the amount of its own facilities that a carrier must use in order to meet the eligibility criteria.[24] Federal guidelines, even if they are not mandatory, will provide guidance to the States as they make their eligibility decisions and will help to provide some degree of nationwide uniformity. Further, FCC guidelines would provide notice to the states in advance of any proceedings to preempt inconsistent state actions under sections 253 or 254(f).

FCC guidelines would be particularly helpful as states determine the type and scope of facilities that a competitor must use in order to meet the eligibility criteria. Section 214(e)(1)(A) requires that a carrier must either use "its own facilities or a combination of its own facilities and resale of another carrier's services." The interpretation of this "facilities" requirement is critical to the growth of competition. If this provision is interpreted to require competitors to deploy their own network entirely separate from that of the incumbent carrier prior to receiving universal service support, competitors may forego the opportunity to compete in high-cost areas altogether. FCC guidelines concerning the interpretation of this requirement could provide great assistance to States and the development of competition in high-cost areas.

A further issue that requires Commission clarification is the level of support that each eligible

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[24] The Joint Board recommended that the Commission not adopt any national guidelines relating to the advertising requirement. The Joint Board did not, however, adopt any recommendation concerning guidelines for the meaning of the term "throughout" and the scope of the facilities requirement. See, para. 164.

carrier can receive. In other words, the determination of who is eligible to receive universal service support, which is determined by the States, is separate from the question of how much support an eligible carrier may receive, which is determined by the FCC. Once a carrier is designated by the State as an eligible carrier, the FCC should allow the carrier to receive universal service support for the customers it serves both over its non-LEC facilities and over unbundled elements purchased from the LEC under section 251(c)(3). Users of unbundled elements purchase or lease these facilities at their cost and can use them for whatever purposes they desire. The underlying carrier is compensated for these facilities at their true economic costs. Thus, once a carrier is determined to be eligible, it should be eligible to receive the same universal service support as the incumbent carrier to the extent it serves customers using unbundled elements.

CPI believes that carriers should not be permitted to receive universal service support directly from the fund for customers they serve using resale under 251(c)(4). The underlying carrier should receive universal service support for these customers in order to keep its retail rates lower than the costs. The reseller receives the benefits of this universal service support because its wholesale rates are based upon the underlying carrier's retail rates.

On the other hand, CPI believes that resellers should be eligible to participate in the Lifeline and Link-Up programs as well as any other carrier. The Lifeline and Link-Up programs provide support directly to the end user, not to the carrier. For this reason, resellers are not precluded from participating in the Lifeline and Link-Up programs by section 254(e). To CPI's knowledge, nothing precluded resellers from participating in these programs prior to the enactment of the Telecommunications Act, and these programs are "grandfathered" in the legislation by section 254(j). To forbid resellers from participating in the Lifeline and Link-up programs would effectively preclude them from competing for low-income consumers.

V. The Commission Should Not Specify the Manner in Which Telecommunications Providers May Collect USF Contributions in Charges to Consumers

In its Recommended Decision, the Joint Board addressed the issue of whether USF contributions should be collected from consumers in the form of a retail surcharge. The Joint Board concluded that "these mechanisms [retail surcharges or increased SLCs] would violate the statutory requirement that carriers, not consumers, finance support mechanisms."[25] This single statement triggered much debate in the comments, with PacTel dedicating three pages to rebuttal as to why the Commission could not prevent carriers from collecting the USF obligation from end-users and how the requirement would be an unconstitutional taking.[26]

CPI suggests the following obvious approach to this issue. To satisfy the statutory requirement cited by the Joint Board, universal service contributions should be assessed to all providers of telecommunications services and viewed as a cost of doing business by these providers. The Commission should not specify further in this docket the means by which providers collect these costs from customers. In particular, the Commission should not "throw the providers into the

[25]Recommended Decision, ¶812.

[26]PacTel Comments at 21 ff.

briar patch" by requiring them to place a line item surcharge on customers' bills. But neither should the Commission exclude USF contributions from a regulated company's cost-of-service[27]. Like rent, labor costs or gasoline for auto fleets, USF contributions should be treated as a cost of doing business.

The exact implications of this policy will vary between providers depending on the type of their regulation and the degree of competition in their sector of the industry. ILECs regulated on a cost of service basis could apply for a rate increase if the net contribution to USF pushes their earned return below authorized levels. ILECs regulated under price caps may seek to adjust the price cap to reflect an increased cost. Depending on circumstances, this may or may not may not result in increased rates. For some ILECs, the draw from the USF will exceed their payment into the fund so that no rate increase would be likely until other rates were reduced. Providers in competitive markets will have to determine the extent to which they can pass through the costs of USF contributions. Finally, the providers may decide for themselves whether to reflect the USF cost on the customers' bills as an explicit line-item charge.[28]

A close analogy is the manner in which corporate income taxes are treated for these providers. All domestic telecommunications providers are required to pay such taxes; regulated companies apply to regulators for the recovery of such taxes; unregulated companies in competitive markets

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[27]We agree with the Comments of CompTel at 17 that the Commission should not specify in this docket how the costs shall be recovered.

[28]We agree with the Comments of LCI that the Commission should not prohibit a carrier from including a line item on the bill.

pass on the costs of income taxes in the price of their products. The ability of such companies to pass on the cost of this federal "mandate" is not in question. Neither, though, is there a requirement from the IRS or from utility regulators to identify income taxes as a line item on customers' bills. Nor is there a single specified formula as to how fairly to collect the tax in prices. In competitive markets, competitive pressures dictate how the tax is passed on; in regulated markets, state and federal regulatory rules determine the share each consumer segment should bear.

CPI submits that this suggested approach is consistent both with Section 254 of the Communications Act and with the requirements of an industry with a mixture of monopoly and competition. Moreover, it is competitively neutral since each provider has a method for including the USF assessment in its cost structure. The Commission should reject the claims of various telecommunications providers that only a mandatory retail surcharge can be competitively neutral.

VI. The Commission Should Adopt The Joint Board Recommendations Regarding Denial of Service For Non-Payment of Toll Charges. The Commission Should Expand the Lifeline Program.

Two recommendations of the Joint Board concerning low income customers should be adopted by the Commission: an increase in Lifeline assistance and the prohibition on termination of local service of Lifeline recipients to collect amounts owed for other telecommunications services.

These recommendations attracted some support, but chiefly earned significant opposition from telecommunications providers.

Lifeline expansion was supported by consumer representatives[29], some ILECs[30] and by at least one long distance carrier[31]. Support for the Joint Board's recommendation on denial of service for non-payment (DNP) was limited to consumer representatives. The proposal was opposed almost uniformly by telecommunications providers. First prize for rhetoric goes to Ameritech who described the proposed policy as creating a "license to steal" for low-income customers.[32]

CPI supports the Recommended Decision of the Joint Board on both scores. As we expressed in our initial comments, expanding the Lifeline program by dropping the requirement that states match the federal discount will help follow through on the congressional mandate that rates be affordable for low-income persons. While CPI supports the expansion of the support from $3.50 to $5.25, we also suggested in our response to the Public Notice that a larger expansion should be considered and that the FCC should examine incentives to keep state funding at or above current levels. Similar comments were offered by NYNEX.[33]

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[29]NASUCA, the DC Office of Peoples Counsel, and the New Jersey Public Advocate supported expansion of Lifeline.

[30]See, for example, Comments of NYNEX.

[31]See, Worldcom's support of the Lifeline "compromise."

[32]Ameritech Comments at 14.

[33]NYNEX Comments at 9.

There seems to be no middle ground on the philosophical issue of whether termination of local service should be used for collection of amounts owed to other telecommunications providers, chiefly long-distance carriers. CPI agrees with the analysis of the Joint Board that low-income subscribers should not, in most circumstances, lose access to local telecommunications services for failure to pay amounts owed to other telecommunications carriers. CPI supports this position with the knowledge and belief that it is possible, generally, to distinguish between access to local dialtone and long distance carriers. Further, CPI believes that it is possible in many cases for a local exchange company to deny access selectively to individual long distance carriers. To the maximum extent possible, LECs should be required to use the least punitive method to restrict a Lifeline recipient's access to services. Denial of local service for these customers should be employed only for the non-payment of local service charges or if it is impossible selectively to deny access to other telecommunications providers.

VII. The Commission Should Adopt the Joint Board Recommendations Concerning Reductions in the Subscriber Line Charge.

The Joint Board recommends that reductions in the interstate common line charges due to removal of LTS and pay telephone station equipment costs be reflected in reductions to both the SLC and the CCLC. CPI joins the consumer groups that support that recommendation.[34] The comments of the telecommunications providers are nearly uniformly in opposition to reducing the SLC or placing a cap on the charge.[35]

[34]See Comments of NASUCA at 2 and of the Office of People's Counsel for the District of Columbia at 5.

[35]A notable exception is MCI who suggests that SLCs could be lowered from $3.50 to $1.90 if common line costs were brought into alignment with economic costs. MCI suggests that

CPI disagrees with those parties that simultaneously characterize the CCLC as a pure subsidy and the SLC as the economically "correct" method to recover common line costs. In fact, both the CCL and the SLC are rate components in which interstate users and carriers share in the recovery of a portion of the costs of LEC facilities used to provide joint products. The formula dividing this revenue requirement between the SLC and the CCL (e.g., $3.50 for residential SLC, balance of costs to the CCL) is the product of political compromise that can be modified.[36]

Many providers argue that modifications to the SLC should be taken up only in the access charge reform docket. CPI agrees that a comprehensive look at the entire access charge structure is desired and that the SLC issue, among many others, should be considered in that docket. On the other hand, the Commission referred questions about the SLC to the Joint Board for its consideration and has received a recommendation. While the size of the SLC is certainly an access charge issue, it is also a rate affordability issue. CPI thinks that the Joint Board's recommendation is correct and suggests that the Commission should adopt the recommendation, even if its implementation is coordinated with other changes to access charges that flow from the access charge reform docket.

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this examination be undertaken in the docket dedicated to access charge reform.

[36]For this reason, we disagree with the analysis of Bell Atlantic at 22 that the SLC should not be reduced because it was not "designed" to recover LTS costs or pay telephone station costs.

VIII. **Conclusion**

CPI supports the Recommended Decision of the Joint Board in all essential details. In these Comments we make recommendations on some of the contentious issues and recommend extensions of the Joint Board's recommendations in some areas. We respectfully request that the Commission adopt these recommendations.

Respectfully Submitted,

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I, Heather Bloxham, do hereby certify that copies of the foregoing Reply Comments were served, by first class mail, postage prepaid on this 10th day of January 1997 to the following parties:

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